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ABSTRACT

This report examines state aid to each school system in Nebraska, comparing funding in school year 1997-98 to proposed state aid in 2000-01. State aid received in 1997-98 was the last before passage of LB-806, which set the current school funding formula. This legislation has produced clear winners and losers, with the number of losers now numbering 111 school systems. Certain districts have been consistent losers; 38 districts have lost 10 percent or more in state aid in each year of the 3-year period. These districts have much in common. They are small, with a median K-12 enrollment of 212 students, and mostly rural. They are well-performing, with a median high school completion rate of 95 percent, compared to the statewide average of 85 percent. They are also efficient, with an average annual expenditure-per-graduate of $7,226. Many of these districts are on the verge of unification, consolidation, or dissolution, outcomes made more likely by Nebraska's limit on property taxes. It is clear that rural districts are being hurt by the school finance formula. The public policy bias appears to work against those small school systems located near other similar systems in areas of relatively denser population, and creates a powerful economic incentive for consolidation. Recommendations are offered for maintaining well-performing, efficient, community-based schools in Nebraska. The 111 "losing" school districts are listed with their enrollments and losses in state aid. (SV)

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Big Trouble for Small Schools II:

An Analysis of the Effects of LB 806

Nebraska Alliance for Rural Education

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Center for Rural Affairs

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About the Nebraska Alliance for Rural Education

The Nebraska Alliance for Rural Education is a partnership between School at the Center, the Center for Rural Affairs, the Nebraska Rural Development Commission, the Local Government Assistance Program, and the Rural Forum (which includes the Nebraska Farm Bureau Federation, Nebraska Farmer's Union, Nebraska Rural Community Schools Association, Class I's United, Nebraska School Finance Coalition, and Friends of Rural Education). The purpose of the Alliance is to launch a broad based coalition of leading rural, farm, and education activists in Nebraska to "build the capacity of rural people to fight for adequate, equitable, and quality rural education and community development as defined and developed by rural people themselves."

The Nebraska Alliance for Rural Education features grassroots organizing, policy research, training for rural activists and school board members, and work with the news media.

This report is part of a series of research aimed at strengthening state-wide policy supporting rural education and rural community schools.

The Alliance believes that:

- State policy should be guided on the basis that equal educational opportunities for Nebraska children are a right guaranteed by the Nebraska Constitution under the Equal Protection Clause.
- State education policy should support schools that are community-based, small in scale, and achieve local, as well as state, goals and standards of quality education.
- State educational financing should recognize cost differences that reflect local circumstances and needs ("fund them as you find them"), promote resource stability and predictability, and utilize an aid distribution formula that is based on actual cost of doing business and local capacity to pay.

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Abstract

An analysis of certified state aid to school systems comparing school years 1997-1998 and the proposed certified state aid for 2000-2001 reveals that 38 school systems have lost 10 percent or more of their state aid funding and have consistently lost at least that amount in state aid every year, since the enactment of LB 806. This study is a follow up to the original *Big Trouble for Small Schools*, published by the Center for Rural Affairs and Nebraska Alliance for Rural Education in 1999. These systems represent 8400 students. Combined, these systems will receive $9.17 million less in state aid in the 2000/01 school year than was received in the 1997/98 school year. These systems are small in size, with a mean enrollment of 220.

Methodology

Amounts of state aid for each system in Nebraska as certified by the Nebraska Department of Education were compared for school years 1997-1998 and 2000-01. The base year of 1997-1998 was prior to LB 806, Tax Equity and Educational Opportunities Support Act, the current school finance formula. LB 806 was adopted during the 1997 session of the Nebraska Legislature.

In December 1997, the Center for Rural Affairs issued a report entitled *Affects of LB 1114 and LB 806 on School Funding for 1998-99*. The report found that 64 school systems were losing 10 percent or more of their state aid under LB 806 and LB 1114. In October 1999, the Center for Rural Affairs did a follow up study entitled *Big Trouble for Small Schools* which extended the time frame to 1997-98 through 1999-2000. That report found 90 systems losing 10 percent or more of their state aid funding. This report updates the 1999 report based on a third year of experience under the current method of public school finance and examines the effects over the three year period.

All data concerning state aid and enrollment is from the Nebraska Department of Education.

Findings

When considering the state aid funding proposed for the school year 2000-01, Nebraska's schools received $32.7 million less state aid than in school year 1999-00. When calculating the differences in state aid awarded, 42 new school systems were added to the list of schools with a 10 percent or more decrease, bringing the total to 111 (some systems had fallen off of the list).

The analysis revealed that 38 school systems lost 10 percent or more in state aid in each year of the three year period. These systems represent 8,400 students with a mean enrollment of 220. These systems lost more than $9.17 million in state aid over the years in question (1997-1999 to 2000-01), a 53 percent decrease.

As with past reports on LB 806 and LB 1114, it has been shown that there are clear losers and winners. Since the first report was released, the losers have almost doubled in numbers, growing from 64 systems to 111 systems. But the finance system is making certain school system consistent "losers". These 38 schools have much in common, characteristics that have been defined as quality.

⇒ **Small.** These systems combine for 8,400 students and have a mean enrollment of 220. The median K-12 system enrollment is 212, or an average of 17 students per grade. Schools are often classified by their activity class, (A through D2), based on enrollment. **Table 1 shows** where money was lost in respect to activity class.

Activity Class	Percent of Systems Losing 10%+ Aid (2000/01)	Percent of Systems with a loss of Aid in each of the school years (1997/98 to 2000/01)
A	0%	0%
B	2.7%	0%
C-1	12.7%	5.6%
C-2	23.6%	8.3%
D-1	20.9%	36.1%
D-2	37.2%	50%

Table 1

Note: Two school systems – Trumbull and Guide Rock– do not have high schools, and thus are not considered in dividing the systems among activity class. Percentages are based on 110 school systems and 36 systems respectively.

⇒ **Rural.** Nebraska has 47 counties considered "completely rural" under the United States Department of Agriculture BEALE Code Classification. The list of 38 school systems include 17 of these counties containing 19 school systems. The map attached hereto shows the location of each of the 38 school systems, with a legend that indicates systems by county. The remaining 19 systems are in counties that by any measure would be considered rural.

⇒ **Well-performing.** The report *Small Schools, Big Results* of the Nebraska Alliance for Rural Education found that high school completion rates in Nebraska were highest for smaller schools. An analysis of the data used for that report finds that from school years 1991-1992 to 1994-1995, the median high school completion rate for these 38 systems was 95 percent (compared to the statewide average of 85 percent).[1]

⇒ **Efficient.** *Small Schools, Big Results*, using a cost-per-graduate measure of expenditures and economic "efficiency," found that high schools of 300-599 students had the lowest expenditures per pupil likely to graduate, $5,790. These 38 school systems have an average annual expenditure per pupil likely to graduate $7,226,

[1] High school completion rates were 89 percent for those systems with 300-599 high school students, and 84 percent for those systems with 1,000 or more high school students, *Small Schools, Big Results*, Nebraska Alliance for Rural Education, 1999.

$1,436 more than the most "efficient" school size. When considering the social costs of not graduating, these differences are virtually eliminated. By further comparison, the largest schools in the state (those with over 1,000 high school students) had an average annual expenditure per pupil likely to graduate of $6,397, $829 per pupil more than the 38 systems that are losing aid every year.

⇒ **In danger.** Many of these systems may be on the verge of unification, consolidation, or dissolution. At this time, two school systems that are included in this report will be unified or consolidated after the 1999-2000 school year. At least one system is looking into unification or consolidation in the next few years. Nebraska's limit on property taxes will likely speed up the school district mergers because of the limit it places on school's revenue, a limit that becomes more severe in the next year.

Policy Implications

It is clear from the results of the Center's past three studies regarding LB 806 and LB 1114 that rural districts are being hurt by the school finance formula. The public policy bias appears to work against those small school systems located near other similar systems, generally in areas of relatively dense populations. This policy impact, and the direct consolidation incentives contained in the school finance formula, creates a powerful economic incentive for school systems to consider alternative structures such as consolidation or unification.

This economic incentive becomes more powerful when considering the effects of the LB 1114 property tax lids. Despite the lids enacted pursuant to LB 1114 and the additional state aid to education appropriated by the Legislature, recent data show property taxes in Nebraska – especially on agricultural land – remain among the highest in the nation. The continued heavy reliance upon property taxes for school financing in rural areas is particularly distressing in times such as now when commodity prices and farm income remain low. Yet, the over $9 million lost in state aid since 1997-1998 to these 38 systems can be addressed in limited ways – increased property taxes, either through increased valuations or levy limit overrides; severe cuts in educational budgets; school closure; or unification or consolidation. All in all, not attractive options to rural Nebraskans, and options that threaten both the equity and adequacy of education for Nebraska's small schools.

Public policy that pressures small schools into consolidation through underfunding and incentives is counter-productive. As school get larger, educational results generally worsen. The academic, social and communal advantages of smaller schools are lost. It makes little sense for the best interest of communities and the society to adopt public policy that worsens the achievement and outcomes of our schools and students.

To maintain well performing, efficient, community-based schools, and to prevent a worsening of Nebraska's educational achievement and outcomes, the Nebraska Legislature should consider the following:

⇒The state aid distribution formula should reinstate a system of cost groupings based on school size and should incorporate the actual cost of providing an adequate education for each district rather than average expenditures based primarily on the largest systems in the state.

⇒The state aid distribution formula should include factors that can be shown to impact the cost of providing an adequate education to all students, including number of students, distance, construction costs, school readiness, learning ability, and other special education needs.

⇒The state aid distribution formula should incorporate the local capacity of a schools system's property owners to pay the levied property taxes and not base funding solely on the taxable property wealth of the system.

⇒The Nebraska school finance system should promote resource stability and predictability.

⇒The Nebraska school finance system and state education policy should support the achievement of high level educational outcomes and recognize that community-based schools, whether in small or large systems, are the best option for meeting the educational goals of the community and the educational standards of the state.

The Class of 2000/01 Big Trouble			
School System	**$ Decrease 97/98-00/01**	**% Decrease**	**99/00 K-12 Enrollment**
Davenport Community Schools	$ 47,984.53	156%	103
Mullen Public Schools	$ 36,021.29	141%	185
Monroe Public Schools	$ 360,353.29	104%	109
Clarks Public Schools	$ 248,359.74	100%	128
Wheeler Central Public Schools	$ 21,788.54	100%	141
Axtell Public Schools	$ 96,164.68	94%	324
Centennial Public Schools	$ 111,130.26	94%	686
McCool Junction Public Schools	$ 249,280.52	92%	144
Trumbull Public Schools	$ 221,440.06	91%	57
Brady Public Schools	$ 133,032.17	83%	128
Exeter Public Schools	$ 171,003.02	83%	216
Dodge Public Schools	$ 188,935.61	82%	175
SE Nebraska Consolidated Sch	$ 454,515.10	79%	244
Stromsburg Public Schools	$ 245,014.98	79%	309
Bruning Public Schools	$ 190,416.99	78%	147
Elgin Public Schools	$ 158,519.82	78%	211
South Platte Public Schools	$ 196,481.02	77%	246
Cedar Bluffs Public Schools	$ 408,554.53	72%	295
Chase County Public Schools	$ 249,556.32	71%	226
Kenesaw Public Schools	$ 193,239.76	70%	269
St Edward Public Schools	$ 381,597.39	70%	231
Cedar Rapids Public Schools	$ 182,495.07	69%	221
Nemaha Valley Public Schools	$ 481,331.32	65%	242
Silver Creek Public Schools	$ 183,142.26	63%	173
Silver Lake Public Schools	$ 99,521.60	62%	261
Dorchester Public Schools	$ 325,037.18	60%	236
Wood River Rural High School	$ 255,356.94	60%	265
Lawrence Public Schools	$ 182,286.35	57%	104
Anselmo-Merna Public Schools	$ 324,355.66	55%	295
East Butler Public Schools	$ 131,507.11	54%	357
Ewing Public Schools	$ 374,902.53	54%	177
Milligan Public Schools	$ 234,445.31	54%	133
Table Rock-Steinauer Schools	$ 221,600.32	53%	98
Johnson-Brock Public Schools	$ 140,795.33	52%	245
Hildreth Public Schools	$ 183,264.78	51%	142
Diller Community Schools	$ 221,957.50	49%	140
Arthur County High School	$ 46,087.97	47%	50
Guide Rock Public School	$ 113,370.67	47%	31
Shelby Public Schools	$ 194,652.86	47%	304
Waterloo Public Schools	$ 291,244.71	46%	246
Syracuse-Dunbar-Avoca School	$ 421,381.13	45%	627
Wolbach Public Schools	$ 181,661.68	45%	117
Chester-Hubbell-Byron Schools	$ 173,480.26	44%	136
Crofton Public Schools	$ 507,811.54	44%	392
Nelson Public Schools	$ 229,653.91	44%	185
Coleridge Public Schools	$ 353,188.87	42%	227
Leyton Public Schools	$ 63,172.14	42%	254

The Class of 2000/01 Big Trouble (cont.)			
School System	**$ Decrease 97/98-00/01**	**% Decrease**	**99/00 K-12 Enrollment**
Deschler Public Schools	$ 155,724.69	41%	269
Sterling Public Schools	$ 246,924.98	40%	229
Republican Valley Schools	$ 446,414.63	39%	302
Leigh Community Schools	$ 296,055.46	38%	287
West Point Public Schools	$ 97,989.17	38%	633
Petersburg Public Schools	$ 91,284.26	37%	152
Howells Public Schools	$ 200,980.59	36%	232
Osceola Public Schools	$ 101,782.94	35%	307
Prague Public Schools	$ 114,835.83	35%	159
Albion Public Schools	$ 341,031.68	34%	635
Bloomfield Community Schools	$ 286,253.56	34%	381
Clarkson Public Schools	$ 192,059.22	34%	228
Lyons-Decatur Northeast Schoo	$ 340,221.06	34%	432
Newman Grove Public Schools	$ 186,249.75	34%	309
Beemer Public Schools	$ 186,166.95	33%	170
Litchfield Public Schools	$ 108,902.39	33%	138
Odell Public Schools	$ 220,063.89	33%	206
Elkhorn Public Schools	$ 1,267,048.60	32%	2673
Stuart Public Schools	$ 278,568.51	32%	215
West Holt Rural High School	$ 103,708.88	32%	187
Allen Consolidated Schools	$ 216,085.58	31%	221
South Sarpy Dist 46	$ 381,933.37	31%	1146
Pleasanton Public Schools	$ 201,438.37	30%	247
Wausa Public Schools	$ 149,019.10	30%	212
Clay Center Public Schools	$ 193,746.65	29%	260
Palmyra Dist OR 1	$ 238,955.19	29%	467
Pender Public Schools	$ 279,775.99	29%	407
Wahoo Public Schools	$ 272,128.35	29%	813
Bancroft-Rosalie Community Sc	$ 191,904.85	28%	301
Elba Public Schools	$ 185,442.89	27%	162
Morrill Public Schools	$ 464,038.86	27%	522
Winside Public Schools	$ 311,502.07	27%	312
Genoa Public Schools	$ 213,526.74	26%	336
Sioux County High School	$ 19,266.36	25%	47
Stanton Community Schools	$ 375,073.79	25%	462
Bennington Public Schools	$ 368,551.69	24%	569
Lynch Public Schools	$ 120,690.10	24%	117
Newcastle Public Schools	$ 144,444.12	23%	192
Dawson-Verdon Public Schools	$ 117,547.44	22%	189
Logan View Public Schools	$ 269,377.05	22%	655
Greeley Public Schools	$ 93,179.37	21%	150
Osmond Public Schools	$ 127,463.40	21%	264
Schuyler Central High School	$ 476,895.92	21%	419
Wynot Public Schools	$ 113,449.63	21%	186
Maxwell Public Schools	$ 125,326.81	20%	258
Lodgepole Public Schools	$ 49,355.60	19%	162
Loup County Public Schools	$ 32,465.34	19%	116

The Class of 2000/01 Big Trouble (cont.)			
School System	**$ Decrease 97/98-00/01**	**% Decrease**	**99/00 K-12 Enrollment**
Alma Public Schools	$ 185,294.44	18%	396
Arcadia Public Schools	$ 77,263.48	18%	128
Bertrand Public Schools	$ 12,631.98	18%	324
Scribner-Snyder Community Sc	$ 69,931.17	18%	358
Randolph Public Schools	$ 198,933.12	17%	448
Spalding Public Schools	$ 45,181.28	17%	133
Centura Public Schools	$ 178,688.07	16%	579
Tri County Public Schools	$ 77,149.88	15%	571
Elm Creek Public Schools	$ 112,763.00	14%	349
Chambers Public Schools	$ 60,025.94	13%	193
Rushville High School	$ 119,484.39	12%	129
Seward Public Schools	$ 160,951.64	12%	1374
Wilcox Public Schools	$ 3,503.06	12%	225
Hampton Public Schools	$ 16,722.26	11%	170
Spencer-Naper Public Schools	$ 120,535.71	11%	270
David City Public Schools	$ 33,061.90	10%	608

10% or more loss in state aid every year since 1997/1998

School System	$ Decrease 97/98-00/01	% Decrease	99/00 K-12 Enrollment
Monroe Public Schools	$ 360,353.29	104%	109
Clarks Public Schools	$ 248,359.74	100%	128
Centennial Public Schools	$ 111,130.26	94%	686
McCool Junction Public Schools	$ 249,280.52	92%	147
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Beemer Public Schools	$ 186,166.95	33%	170
Stuart Public Schools	$ 278,568.51	32%	215
Allen Consolidated Schools	$ 216,085.58	31%	221
Wausa Public Schools	$ 149,019.10	30%	212
Clay Center Public Schools	$ 193,746.65	29%	260
Bancroft-Rosalie Community Schools	$ 191,904.85	28%	301
Elba Public Schools	$ 185,442.89	27%	162
Stanton Community Schools	$ 375,073.79	25%	462
Lynch Public Schools	$ 120,690.10	24%	117

Counties and their systems in Big Trouble

Antelope County	**Johnson County**
Elgin Public Schools	Nemaha Valley Public Schools
Boone County	Sterling Public Schools
St Edward Public Schools	**Knox County**
Boyd County	Wausa Public Schools
Lynch Public Schools	**Lincoln County**
Cedar County	Brady Public Schools
Coleridge Public Schools	**Merrick County**
Cheyenne County	Clarks Public Schools
Leyton Public Schools	Silver Creek Public Schools
Clay County	**Nuckolls County**
Trumbull Public Schools	Nelson Public Schools
Clay Center Public Schools	**Otoe County**
Colfax County	Syracuse-Dunbar-Avoca Schools
Howells Public Schools	**Pawnee County**
Leigh Community Schools	Table Rock-Steinauer Schools
Cuming County	**Platte County**
Bancroft-Rosalie Community Schools	Monroe Public Schools
Beemer Public Schools	**Red Willow County**
Deuel County	Republican Valley Schools
South Platte Public Schools	**Richardson County**
Dixon County	SE Nebraska Consolidated Schools
Allen Consolidated Schools	**Saline County**
Fillmore County	Dorchester Public Schools
Exeter Public Schools	**Seward County**
Milligan Public Schools	Centennial Public Schools
Franklin County	**Stanton County**
Hildreth Public Schools	Stanton Community Schools
Holt County	**Thayer County**
Ewing Public Schools	Chester-Hubbell-Byron Schools
Stuart Public Schools	**Webster County**
Howard County	Guide Rock Public School
Elba Public Schools	**York County**
Jefferson County	McCool Junction Public Schools
Diller Community Schools	

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